

# Reference and Anchor Points in Property Negotiation: What Influence Has the Estate Valuer?

IROHAM, Chukwuemeka Osmond (Corresponding author)

Department of Estate Management, School of Environmental Studies

College of Science and Technology, Covenant University

P. M. B.1023, Ota, Ogun State, Nigeria

Tel: 234-803-679-5013 E-mail: [emeka\\_iroham@yahoo.co.uk](mailto:emeka_iroham@yahoo.co.uk)

OLOYEDE, Samuel Adesiyun

Department of Estate Management, School of Environmental Studies

College of Science and Technology, Covenant University

P. M. B.1023, Ota, Ogun State, Nigeria

Tel: 234-803-472-2469 E-mail: [Samoloye49@yahoo.com](mailto:Samoloye49@yahoo.com)

AKINJARE, Omolade Adedoyin

Department of Estate Management, School of Environmental Studies

College of Science and Technology, Covenant University

P. M. B.1023, Ota, Ogun State, Nigeria

Tel: 234-803-472-2469 E-mail: [omoladeogah@yahoo.co.uk](mailto:omoladeogah@yahoo.co.uk)

## Abstract

In a bid to at least satisfying individual or collective interest in property negotiations, vendors and buyers tend to place yardsticks which inform their decision. These yardsticks have been described as the anchor and reference point in property negotiation. While the former affects the counteroffer a negotiator makes, the latter determines how an offer is perceived either as a loss or gain. The aim of this work is to determine the influence of the Estate Valuer in determining these yardsticks. A study of 92 Property development companies cutting across the various strata in the study area formed the sample size of this work. The respondents were grouped into two equal groups of vendors and purchasers. It was revealed by the use of the Relative Important Index that record of past similar sales and the total cost of the subject property form the anchor and reference point for vendors respectively, while record of past similar purchases is both the anchor and reference point for the purchasers. The study reveals that Estate Valuers have little or no influence in determining these decisive points and that at best they serve as Estate Agents during negotiations. The researcher opines that the regulatory bodies of The Nigerian Institution of Estate Surveyors and valuers (NIESV) and The Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) should sponsor a research where Estate valuers in the academia can come up with comments on daily price indices as a multiplier to the exact day to day value of real estate, thereby bringing the relevance of the Estate valuer in property negotiation to the forefront particularly when sales dates are conceded as the date of actual transfer of interest and not the commencement of negotiation.

**Keywords:** Anchor points, Reference point, Property negotiation, Estate valuers

## 1. Introduction

Negotiation, which is evident in all of man's endeavours, is a dialogue intended to produce an agreement upon courses of action, for individual or collective advantage, or to craft outcomes to satisfy various interests. Hence, negotiation, as an upshot from variety of choices, is with the main aim of at least satisfying the problem (that is, finding a good-enough solution) if not optimizing solutions to problems (that is, finding the best solution).

Humans, in a bid to arriving at a final outcome during negotiations tend to break a complicated decision or mental process into a series of smaller decisions by processing information serially – one step at a time - and in

“chunks” of five to eight pieces (Newell and Simon, 1972; Simon, 1978,). During this simplification process, people will key in on one or two salient pieces of information, known as reference points, and use these references as foundations on which to build a basis for a decision.

In what seems akin to “reference points” is a term in cognitive psychology that has also sprawled real estate literature in contemporary times, “anchoring heuristics (anchor points)”. This is a kind of cognitive shortcut that entails picking an initial starting point which may be given, estimated, or implied and then proceeding to use this information as the basis of evaluating a given option or course of action (Kahneman and Tversky, 1974). Heuristics generally are simplifying mental strategies that allow people to break down complex, multi-part problems into smaller pieces so that they might be easier to solve.

The two terms highlighted above, “reference points” and “anchor points”, invariably look synonymous, however an underlying difference has been proffered particularly in the area of negotiation. Kristensen and Garling (1997) in their study assumed that an anchor point affects the counteroffer a negotiator makes as seen in (Northcraft & Neale, 1987), whereas a reference point determines how an offer is perceived. This posit was supported when counteroffers are generated through an anchoring-and-adjustment process leading to an effect of the anchor point (selling price), and that counteroffers are influenced by changes in reference point which in turn determine whether the anchor point is perceived as a gain or a loss (Kristensen and Garling op. cit).

Certain literatures exist in the negotiation of real estate as regards reference and anchor points which have been used interchangeably. For instance, White and Neale (1994) studied the impact of the multiple reference points, buyer aspiration and reservation price; in a follow up study in 1996 with Thomas-Hunt, they used reservation price and market price information. The earlier work was however, faulted by Aycock (1999), who used asking price and buyer knowledge of initial purchase price, as multiple reference points on the grounds that reference points, such as aspirations, which is not commonly employed in real-life negotiations were used. Other notable studies such as (Northcraft & Neale, 1987; Rabianski, 1992; and Black and Diaz, 1996) focused on asking price only, while Diekmann, Tensbrunel, Pradhan, Schroth, and Bazerman, (1996) focused on the impact of initial purchase price on the settlement price. These researches have shown that the understudied factors are powerful anchors in several different experimental settings.

Although previous studies had made remarkable contribution to negotiation in real estate, the use of novice as subjects in such study leads to the interpretation of such result with caution. Other studies which have focused on single reference points have been criticized for not been robust enough while those on multiple reference points are regarded as not being commonly employed in real-life negotiations. As a follow-up to the above mentioned studies this study intends to explore the outcomes of negotiation with respect to reference and anchor points in a bid to discovering the influence of Estate Valuers in the Nigerian property market.

## **2. Research Methodology**

The subject of this study comprises of property portfolio managers/property developers. This focus group is relevant in addressing the objective of this work. The property portfolio managers/property developers fulfill a dual role. They, in a sense, serve as both buyers and vendors of properties. Property developers are usually categorized into two main categories, namely: private (individual) investors and organizations or corporate investors (Harvey, 1987; Hargitay and Yu, 1993; Isaac, 1998; Cadman and Rosalyn, 1998; and Hoesli and Macgregor, 2000). The private developers are very numerous as every potential property owner could be regarded as a property developer. For this reason, they are not subject to a sample frame. Moreover, they are difficult to reach since most of them do not subscribe to developers’ associations. This means that it would be difficult to get a sample frame, of private developers. For this reason, private developers are considered an unrealistic study population for this work. On the other hand a sample frame of organizational developers was secured from the publication of the Association of Housing Corporations in Nigeria AHCN (2006). The list includes: Institutional property companies, Government Housing Corporations, Portfolio Managers, Banks, and financial institutions such as Insurance companies who develop property. There are a total of 132 institutional companies /property investment portfolios in Lagos Metropolis. Other organizations that delve into property development were discarded as property development cannot be regarded as their core task. The adoption of a demographic model by (Otte, 2006) gives a total of 92 property development companies/investment portfolios, which forms the sample size of this focus group. This represents about 70% of the study population, a figure that is not at variance with Nwana’s (1981) 40% minimum recommendation. The researcher divided the property developers into two equal groups so as to extract a balance opinion. One group was to serve as vendors while the other was to serve as purchasers of real estate.

The stratified random sampling technique was adopted. Lagos metropolis was stratified into six strata of valuation firm locations (as adopted by Ogunba, 1997; Ogunba & Ajayi, 1998; Iroham 2007), namely: Lagos Island, Victoria Island, Ikoyi Island, Apapa Island, Surulere and Ikeja business districts. The number of firms for sampling within each stratum was in proportion to the number in the total population (that is, 70% in each stratum). Within each stratum, thereafter, there was the random selection of subjects either in any of the two groups.

The study entails the discovery of what constitutes both anchor and reference points during negotiation of property both in the stance of vendors and buyers in the Nigerian Property Market as described by Kristensen and Garling (1997). The property development companies were chosen as the only subject of this research so as to make the result derived as objective as possible. The issue under investigation is in line with human behavioural traits and as such no external pressure is likely to be envisaged that would thwart the authenticity of the findings. The subjects in Group A regarded as (vendors) were asked to ascertain what affects the counter offer made by them and thereafter a benchmark in determining how such offers are perceived. The same procedure was simultaneously administered to the subjects in Group B (buyers).

### 3. Data Analysis and Discussion of Result

Out of the 46 Property Development Companies classified in Group A that cuts across all the strata in the study area, 32 responses were retrieved. This figure represents a response rate of about 69.5%. In Group B, 29 out of the 46 responses were retrieved, representing a valid response rate of 63%.

From the response in group A on what affects the counteroffers made by the subject group (vendors), it was observed that vendors (over 81%), ((having the highest Relative Important Index (RII) of 3.8)) are more apt to make recourse to similarly past sales as a guide to determining counteroffers made by them. When offers are made in the form of selling prices majority of the subjects (over 80%) in Group A attest to the fact that most times buyers always refute such offers by placing counter offers which are usually most times (as declared by 100%) of the respondents in Group A lower than the selling prices. Record of similar past sales hence forms the basis of the counter offers by the vendors. Thus, it is evident that a similarly past sale serves as an anchor point for vendors. Advice from Estate Valuers is seldom sought for as evident from responses, particularly considering the fact that its utilization is the least in consideration apart from advice from lawyers. Table 1 gives a graphic illustration of the response:

The issue of reference point from the stance of vendors was also sought for in this research. As highlighted earlier, reference point determines how an offer is perceived either as a gain or as a loss. Thus, from the stance of vendors the benchmark determines the breakeven point in any property transaction. However, as mentioned in the case of the anchor point, that of the reference point was discovered to be the total cost price of the property as attested to by majority of the respondents (over 90%) having the highest Relative Important Index (RII of 4.65). Table 2 gives a graphic illustration of the response:

Having discovered what constitutes anchor and reference points by vendors, the research also entailed discovering same on the stance of the buyers of real estate. Just as Group A, those in Group B who constitute the buyers in this research were asked a question of the determinant of the counteroffers made by the subject group (buyers). Result gotten reveals that all (100%) respondents do place counter offers from the initial selling price placed on properties. However, respondents are more apt (over 80%) of them to hinge on similarly past purchase as a guide to determining counteroffers made by them. This is evident from the highest Relative Important Index (RII) of 3.75)) associated with the result. Table 3 gives more vivid details:

Also, the quest for determining a benchmark in perceiving how offers are viewed either as a loss or gain was likewise ascertained amongst the respondents in Group B. Purchasers, who are all of the view that property investment is a capital intensive project, expect to recoup such investment at the earliest possible time preferably within 3 years if such properties are to be sold. In the case of owner occupation, prospective buyers of real estate are inclined to properties having easy accessibility to other complementary land uses. In whatsoever reasons for seeking properties, it was discovered just as for the anchor point above, the record of past similar purchase forms a benchmark for determining how offers are perceived by the purchasers. This is as revealed from the highest Relative Important Index (RII) of 4.10. Thus, any negotiation below such benchmark is conceived as a gain and vice versa. Table 4 gives more graphic details:

### 4. Recommendations and concluding remarks

Previous works have tried to look at the relationship between anchor and reference points and how they tend to manipulate each other in offers and counter offers made between the buyers and vendors. However, this research

fills a dearth in literature of the role the Estate Valuers, professionals trained in product optimization in property transaction, play in determining these yardsticks.

Results from the research conducted reveals that the issue of negotiation between vendors and purchasers of real estate is one that has at best seen the role of the estate valuers as a mere estate agent. Hence, the research reveals that, in determining appropriate values for which real estate should change hands, little or no recourse is made to the estate valuer. This trend has to be checkmated for the relevance of the profession to be held in high esteem.

It is observed that the date of conclusion of real estate deals commences when negotiation begins between the vendor and purchaser. Since, sales of real estate could perhaps take ample time; certain factors might have as well affected the presumed value as at the date of commencement of negotiation. One way for the Estate Valuer to become relevant, as to the day to day value placed on real estate, is for the estate surveying profession to sensitize the public on the need to see the conclusion of deals in real estate transactions as on the exact day the real estate changes hands. This will not only make the estate valuer to be seen as just a mere agent but an active participant to the contribution in determining exact value of real property, just as the prices of shares are usually on a continual movement.

The regulatory bodies of the Estate Surveying profession, such as The Nigerian Institution of Estate Surveyors and Valuers, (NIESV) and the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) should sponsor a research to that effect where Estate valuers in the academia can come up with issues on daily price indices as a multiplier to the exact day to day value of real estate, as such the role and relevance of the Estate Surveyor will be undisputable both in the determination of anchor and reference point in property negotiation.

Although, the paper took a stance from buyers and vendors perspective, these players are limited to an organized setup of property dealers, The Property Development Companies. It is obvious that the study of private individuals who have stake in property transactions either as buyers or vendors would have made the findings more conclusive as this would eliminate every form of bias, since this set of individuals might not necessary have frequent dealings in the property market, but an assemblage of such would be herculean due to lack of an aggregated population for them. It is therefore suggested that future research could take a step in that direction. However, this work has been able to open up an insight in this area of study.

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#### Appendixes

Table 1. Anchor Point of Vendors

<b><i>Influences on Counter Offers made by Respondents</i></b>	<b><i>Always</i></b>	<b><i>Most times</i></b>	<b><i>Sometimes</i></b>	<b><i>Rarely</i></b>	<b><i>Never</i></b>
Advice from Estate Valuers	2	5	9	14	2
Advice from Lawyers	1	2	13	10	6
Record of past similar sale	12	8	7	4	1
Record of past similar purchase	7	8	9	5	3
Selling price initially fixed	8	12	6	3	3
Total Cost price of subject property	10	6	6	7	3

Source: Authors' Field Survey (2010)

Table 2. Reference Point of Vendors

<b><i>Influences on breakeven offer</i></b>	<b><i>Always</i></b>	<b><i>Most times</i></b>	<b><i>Sometimes</i></b>	<b><i>Rarely</i></b>	<b><i>Never</i></b>
Advice from Estate Valuers	4	6	6	11	5
Advice from Lawyers	2	8	9	7	6
Record of past similar sale	10	9	8	5	-
Record of past similar purchase	11	8	7	4	2
Selling price initially fixed	9	11	4	6	2
Total Cost price of subject property	14	8	7	2	1

Source: Authors' Field Survey (2010)



Table 3. Anchor Point of Purchasers

<i>Influences on Counter Offers made by Respondents</i>	<i>Always</i>	<i>Most times</i>	<i>Sometimes</i>	<i>Rarely</i>	<i>Never</i>
Advice from Estate Valuers	6	7	5	4	7
Advice from Lawyers	3	6	11	1	8
Record of past similar sale	11	5	6	5	2
Record of past similar purchase	13	6	3	4	3
Selling price initially fixed	9	10	3	3	4
Total Cost price of similar property	7	7	9	2	4

Source: Authors' Field Survey (2010)

Table 4. Reference Point of Purchasers

<i>Influences on breakeven offer</i>	<i>Always</i>	<i>Most times</i>	<i>Sometimes</i>	<i>Rarely</i>	<i>Never</i>
Advice from Estate Valuers	7	8	3	8	3
Advice from Lawyers	4	7	6	5	7
Record of past similar sale	11	9	5	3	1
Record of past similar purchase	15	7	4	1	2
Selling price initially fixed	6	5	8	4	6
Total Cost price of similar property	9	7	4	2	7

Source: Authors' Field Survey (2010)